

Service Date: April 25, 2001

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER of the Application)	UTILITY DIVISION
of MOUNTAIN WATER COMPANY)	
for Authority to Increase Rates and)	DOCKET NO. D2000.7.112
Charges for Water Service to its)	
Missoula, Montana Customers)	ORDER NO. 6264b

* * * * *

ORDER APPROVING STIPULATED RATE SETTLEMENT

FINDINGS OF FACT

1. On July 31, 2000, Mountain Water Company (Mountain Water) filed an application with the Montana Public Service Commission (Commission) for approval to implement a general rate increase in rates and charges in water service for its Missoula, Montana customers. Mountain Water's current cost of service is based upon a four-year old cost of service, using a 1997 test year. The proposed rate increase would raise an additional \$1,809,676 in annual revenues based on a 1999 test year, or a 19.24 percent overall increase. Mountain Water also filed a request for an interim rate increase in the amount of \$927,268 on an annual basis.

2. Mountain Water proposed the increase to recover operation and maintenance expenses, depreciation and amortization expenses, taxes other than income and income taxes and to earn a return of 10.136 percent on rate base of \$23,677,760, for an annual amount of \$2,399,978.

3. On August 31, 2000, the Commission issued a Notice of Application and Intervention Deadline.

4. On September 7, 2000, Montana Consumer Counsel (MCC) filed a petition for intervention in Docket No. D2000.7.112.

5. MCC opposed the magnitude of the rate increase proposed by Mountain Water and submitted prefiled testimony that supported a rate increase of \$89,636. Because of the large

difference in the rate increase amount submitted by Mountain Water and proposed by MCC, the Commission did not issue an interim order.

6. Mountain Water and MCC agreed that the revenue requirement in MCC's presentation would be \$695,000, corrected to reflect changes which both parties agree should be made to reflect either changed circumstances since the MCC filing was made, or which are necessary to remove calculation errors. MCC agreed that its proposed adjustment to income tax expense should no longer be made, as Mountain Water has revoked its Subchapter S election. After MCC withdrew its adjustment, parties agreed that the revenue requirement in the Mountain Water presentation would be \$1,697,000, corrected to reflect changes which both parties agree should be made to reflect either changed circumstances since the Mountain Water filing was made, or which are necessary to remove calculation errors.

7. The remaining differences between the parties are primarily attributable to three issues: (1) rate of return; (2) average test year versus end of test year ratemaking; and, (3) a growth adjustment proposed by MCC.

8. Mountain Water, both in its application and its rebuttal testimony, advocated an overall cost of capital of 10.136 percent. Its weighted cost of capital was derived from a 60/40 equity debt split, an 11 percent return on equity, and an 8.84 percent debt cost. MCC advocated an overall cost of capital of 9.62 percent. Its weighted cost of capital was derived from a 55/45 equity/debt split, a 10.25 percent return on equity, and an 8.84 percent debt cost.

9. Because the parties have proposed an unattributed settlement that resolves several issues, the settlement does not specify a cost of capital. Indeed, the parties have asked the Commission not to do so, as both parties valued the settlement as a means of avoiding what might potentially be adverse precedent.

10. On March 21, 2001, at a hearing in Missoula, Montana, Mountain Water offered a stipulated agreement between Mountain Water and MCC. Mountain Water stated at hearing that the rate increase it has requested is primarily driven by additional capital investment. Since 1997, Mountain Water said it has made significant investments in new mains, replacement mains, looping for fireflows and emergency preparedness. Both Mountain Water and MCC testified that a fair and equitable resolution of the remaining issues between the parties that would result in the establishment of just and reasonable rates would be as follows:

- A. Mountain Water should be authorized, on a final basis, to implement a general rate increase in the water rates for its Missoula division in the amount of \$1,297,000.
- B. The stipulated rate increase is unattributed, except as specified in subparagraph C below to provide continuity for future rate orders.
- C. In accordance with subparagraph B above, the following elements should be treated as being included in the authorized rate increase:
 - (1) For amortization purposes over a two year period, a net rate case expense of \$31,967;
 - (2) For amortization purposes over a two-year period, a low income discount expense of \$35,064.

11. Should the Commission adopt the Stipulation, it would result in monthly bills for typical residential and commercial customers as follows:

Metered 15 Ccf 5/8 x 3/4	\$32.08
Flat Rate Res. 4 room 1 bath	\$33.24
Flat Rate Commercial	\$35.61

12. Both Mountain Water and MCC testified that the Commission's adoption of the Stipulation would be in the public interest. The parties also agreed to this Final Order in lieu of a proposed order.

13. Upon review and consideration the Commissions finds the Stipulation to be just and reasonable and is therefore approved.

CONCLUSIONS OF LAW

1. Mountain Water Company is a public utility furnishing water service to customers in the Missoula, Montana area. As such, it is subject to the supervision, regulation and control of the Commission pursuant to Title 69, Chapter 3, Montana Code Annotated (MCA).

2. The Commission concludes that the approval of the stipulated rate increase as set forth in this Order is just and reasonable.

ORDER

1. Mountain Water Company is hereby granted authority to implement a general rate, on a final basis, for its customers in Missoula, Montana in the amount of \$1,297,000. The implementation shall be as shown in the Findings of Fact above.

2. Mountain Water Company shall file revised tariff schedules to all services as outlined in the Stipulation

3. Tariffs shall be effective for services rendered on or after April 24, 2001.

DONE AND DATED IN OPEN SESSION at Helena, Montana this 24th day of April, by a vote of 4 to 1.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

GARY FELAND, Chairman

JAY STOVALL, Vice Chairman

BOB ANDERSON, Commissioner

MATT BRAINARD, Commissioner
Voting to Dissent

BOB ROWE, Commissioner

ATTEST:

Rhonda J. Simmons
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See ARM 38.2.4806.